

EXECUTIVE SECRETARIAT ROUTING SLIP

TO:

		ACTION	INFO	DATE	INITIAL
1	DCI		X w/o att		
2	DDCI		X w/o att		
3	EXDIR				
4	D/ICS				
5	DDI				
6	DDA				
7	DDO				
8	DDS&T				
9	Chm/NIC				
10	GC				
11	IG				
12	Compt				
13	D/Pers				
14	D/OLL				
15	D/PAO				
16	SA/IA				
17	AO/DCI				
18	C/IPD/OIS				
19	VC/NIC	X w/att			
20	SRP		X w/o att		
21					
22					

SUSPENSE _____
Date

Remarks

25X1

D/ Executive Secretary
3 July 84

Date

Page Denied

Next 7 Page(s) In Document Denied

arm capital gains
as high as 50 percent, long-term
capital gains are taxed at a maxi-
mum rate of 20 percent.

Two things are clear about the
impact of the most recent favorable
change: It will be good for the se-
curities industry and it will be good
for the wealthy. A Joint Committee

Committee Chairman
J. Dole (R-Kan.). "People who can
not afford the risk of fluctuation for
a full year will be able to invest in
our economy."

Dole had sought the change for
several years and had been opposed

the
corpora
stock, eve
of that s
earthly bi

'Underused' World Bank Rethinks Lending Role

By Hobart Rowen
Washington Post Staff Writer

World Bank officials, desperately
worried about what one termed the
"dialogue of the deaf" now going on
between the rich lending countries
and the poor borrowing nations,
have begun a major review of the
role of the bank in the current
Third World debt crisis.

This self-examination has been in
process since January through 12
separate task forces reporting to
Vice President Joseph Wood. A final
report, due in early 1985, will pro-
vide the backdrop for a new general
capital increase to be proposed by
Bank President A. W. Clausen.

Although the review is obviously
at a very early stage, it appears that
the chief new idea that may come
out of it is creation of a new "World
Bank's Bank." This new affiliate
would borrow in the Euro-money
and other commercial markets and
recirculate that money in additional
loans to Third World borrowers.
There is no indication, yet, that this
proposal is acceptable to the Rea-
gan administration.

The "Bank's Bank" would not be
bound by the unique restraint on
World Bank lending that now limits
the total amount of its loans to the
exact value of its capital. This high-
ly conservative 1-to-1 "gearing ra-
tio" has the benefit of maintaining
the bank's credit rating at an envi-
able triple-A level. But it is also re-
garded as a lending straitjacket for
the bank.

Bank officials acknowledge that
the International Monetary Fund
has been a magnificent "fireman" in
the last couple of years, dealing ef-
ficiently with the emergency as-
pects of the Third World debt cri-
sis. But they contend that the un-
derlying problem cannot be solved
through belt-tightening programs

alone, and that the debtor nations
need more help from the bank—es-
pecially in the medium term—that
will stimulate economic growth and,
hence, the ability to increase ex-
ports.

"We're in a period now," says
Anne O. Krueger, the bank's chief
economist, "where we have to focus
on resumption of [economic]
growth."

In a series of interviews, bank of-
ficials said that today's basic reality
is that the bank could borrow more,
and lend more, given the critical na-
ture of the debt problem. The bank,
they hold, should be devising many
ways—including the "Bank's
Bank"—in which it can play a cat-
alytic role in pushing private and
public investment money into the
Third World.

The basic motivation for a reeval-
uation of the bank's role, technically
speaking, is Clausen's insistence
that before he goes to the member-
shareholders for a new capital in-
crease, there be a fundamental re-
examination of "what the bank
ought to be doing," Wood said.

But underneath it all is a deep-
seated feeling of frustration at the
top managerial level of the bank
over its failure so far to gain polit-
ical support from the United States
and other major shareholders for a
more active role in Third World de-
velopment.

The bank, Clausen is fond of say-
ing, is "underutilized." Others seem
to agree: At a recent private meet-
ing with the bank's operating man-
agers in Bedford Springs, Pa., Fed-
eral Reserve Chairman Paul A.
Volcker asked rhetorically: "Where
have you been?" (He conceded later
that the bank has been more in-
volved in places like Brazil, Yugo-

See BANK, G4

Canc
Unite

Guatemala
El Salvador
Costa Ric

Coun
their s
which
as we
milli
Used
Bor

Review May Give Birth To 'World Bank's Bank'

BANK, From G1

slavia and Turkey than he had realized.)

The role-of-the-bank exercise comes at a time when its critics charge there has been a steady shift under Clausen to a "new orthodoxy" responsive to conservative views—especially those of the Reagan administration and, to a lesser extent, those of British Prime Minister Margaret Thatcher. The United States, of course, is the bank's principal and most influential shareholder.

This "new orthodoxy," says Princeton professor and World Bank consultant John P. Lewis, accepts a "think small" philosophy because of worldwide budgetary constraints, as well as increasing emphasis on the view that "private sectors always work better than public sectors."

Lewis points out that in Third World countries, the public and private sectors are often mixed, and "you can get better performance in one or the other depending on which has the more efficient management."

Bank officials deny that they are unduly influenced by any member country's private vs. public sector differences. But they concede that they have been sobered by the dramatic slash enforced on their program of concessional aid, run through the International Development Association, by the major nations' budgetary restraints.

Notably, there was American refusal to go along with the bank's first proposal of a \$16 billion IDA program for the next three years, revised to a bank "asking" figure of \$12 billion and finally to a figure of

\$9 billion that Clausen has termed inadequate.

"We don't think small," said Wood, "but now we have to think smart." This means, as Lewis suggested, that the bank has had to shift from devising ways of getting more resources to more efficient use of available resources.

Within this framework, they say that commercial banks, now timid about increasing their exposure in the Third World, would willingly lend to the bank, which—acting as an intermediary—could relend the funds to developing countries.

Outsiders are dubious about the prospects for the bank to play an enhanced role of any kind, unless there is a dramatic change of heart in the Reagan administration.

The administration supports the IMF's "case-by-case" approach to Third World debtors, with financial aid hinged on the borrowing countries' efforts to get their financial houses in order. Such a strategy contemplates only a supportive role by the bank, in which it concentrates on accelerating the flow of private investment money into the major debtor countries, and on its concessional aid programs elsewhere. Treasury officials say frequently that the bank should remain a development agency and not try to duplicate IMF functions by switching to so-called "policy-based lending."

Nonetheless, Clausen will present the results of the bank's internal studies as a series of options at the time of the annual joint meeting here in September of the bank and the International Monetary Fund. At that stage, the bank will focus on what additional things

See BANK, G5

BUSINESS REAL ESTATE

• Office Space • Investment Property • Land
• Industrial Property • Warehouse Space, Etc.

FRIENDSHIP HEIGHTS • CHEVY CHASE

Prime space for the carriage trade—next to Taylor's & Neiman Marcus, Gucci, Saks Fifth Ave., Woodward & Lothrop—immediate area—Want prime smart townhouse property.

Call 363-4425

PRIME OFFICE SPACE CONN. & I STS.

• 5000 Sq. Ft. • Immediate occupancy
• Up to 30 months term lease

Call J. Tancill

Page Denied

Next 3 Page(s) In Document Denied